

# SENATE BILL REPORT

## SB 6259

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As of January 28, 2014

**Title:** An act relating to providing a reduced public utility tax for log transportation businesses.

**Brief Description:** Providing a reduced public utility tax for log transportation businesses.

**Sponsors:** Senators Hargrove, Hatfield, Braun and Hobbs.

**Brief History:**

**Committee Activity:** Ways & Means: 1/27/14.

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### SENATE COMMITTEE ON WAYS & MEANS

**Staff:** Juliana Roe (786-7438)

**Background:** Business and Occupation (B&O) Tax. Washington's major business tax is the B&O tax. The B&O tax is imposed on the gross receipts of business activities conducted within the state, without any deduction for the costs of doing business. Revenues are deposited in the state general fund. A business may have more than one B&O tax rate, depending on the types of activities conducted. There are a number of different rates. The main rates are 0.471 percent for retailing; 0.484 percent for manufacturing, wholesaling, and extracting; and 1.5 percent for professional and personal services, and activities not classified elsewhere.

Public Utility Tax (PUT). Income from utility operations is taxed under the PUT and is in lieu of the B&O tax; other income of the utility firm, e.g. retail sales of tangible personal property, is subject to the B&O tax. Unlike the B&O tax which pyramids, the PUT applies only on sales to consumers.

Five different rates apply, depending upon the specific utility activity. The current rates, including permanent surtaxes, are:

- distribution of water, 5.029 percent;
- generation or distribution of electrical power, 3.873 percent;
- telegraph companies, distribution of natural gas, and collection of sewerage, 3.852 percent;
- urban transportation and watercraft vessels under 65 feet in length, 0.642 percent; and
- railroads, railroad car companies, motor transportation, and all other public service businesses, 1.926 percent.

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In 2009 the Legislature passed ESSB 6170, which reduced the usual PUT rate on log hauling from 1.926 percent to 1.3696 percent of gross income. That reduced rate expired in June 2013.

**Summary of Bill:** The bill as referred to committee not considered.

**Summary of Bill (Proposed Substitute):** The PUT rate is permanently reduced from 1.926 percent to 1.3696 percent on the hauling of logs over public highways.

The hauling of logs over private roads is subject to the B&O tax under the service and other activities classification. The taxation of the transportation of logs that occur exclusively over private roads is not affected.

**Appropriation:** None.

**Fiscal Note:** Available.

**Committee/Commission/Task Force Created:** No.

**Effective Date:** Ninety days after adjournment of session in which bill is passed.

**Staff Summary of Public Testimony:** PRO: Unfortunately this reduced tax credit expired in 2013 without the Legislature noticing. In 2007 the Legislature requested that the University of Washington and Washington State University investigate the Washington log truck industry toward gaining a better understanding of the costs to safely provide log-hauling services. This was in response to professors being killed by a logging truck. In the study, they found that although there was no economic reason for the logging trucks to be safe, they were safe and were actually safer than other trucks. These logging truck drivers work an average of 69 hours per week and make \$33,000 per year. They are people who work on the fringes. There are good reasons to segregate this business and reduce the rate imposed on this business. The logging industry is a critical part of Washington's infrastructure.

Many logging businesses are small, family-owned businesses. These businesses need this tax exemption in order to continue to be viable operators in the transporting of logs. This industry has not recovered from the economic downturn. We have subsequently lost half of our membership. Because we are generally located in rural parts of the state, our industry was more greatly effected than metropolitan areas. As costs rise, we rely more on ourselves to do things like truck maintenance to keep business costs down.

This business has not changed since the study was conducted in 2008. Profit margins remain thin. Costs continue to increase. If you look at the revenue generated by transporting logs, a third goes to fuel; another third goes to maintenance and repairs, licenses, and fees; and the remaining third goes to the driver in wages, etc. There is nothing left to pay the business owner. The viability of this industry is in jeopardy.

In 2006 the Legislature passed a B&O tax exemption for the timber industry. Log truckers do not pay B&O tax, they pay PUT. So, in 2009, in order to mirror the exemption for log transportation businesses, the Legislature reduced the PUT. This is what has expired. Because these truckers are an important part of our timber industry, we need to re-establish this lower rate.

Log transportation companies are still operating and getting paid at the same rates they were in 1986.

**Persons Testifying:** PRO: Senator Hargrove, prime sponsor; Larry Pursley, WA Trucking Assns.; John McKay, McKay & Sons Trucking; Jerry Bonagofsky, WA Contract Loggers Assn.; John Ehrenreich, WA Forest Protection Assn.